

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
CLERK**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NELSON COUNTY CLERK

**For The Year Ended
December 31, 2003**

The Auditor of Public Accounts has completed the Nelson County Clerk's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees increased by \$12,886 from the prior year, resulting in excess fees of \$351,096 as of December 31, 2003. Revenues increased by \$140,767 from the prior year and expenditures increased by \$127,881.

Debt Obligations:

Capital lease agreements totaled \$44,036 as of December 31, 2003. Future principal and interest payments of \$44,036 are needed to meet these obligations.

Deposits:

The Clerk's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Phyllis S. Mattingly, Nelson County Clerk
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Nelson County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2004, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Phyllis S. Mattingly, Nelson County Clerk
Members of the Nelson County Fiscal Court

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Nelson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 23, 2004

NELSON COUNTY
 PHYLLIS S. MATTINGLY, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

Fiscal Court		\$	9,173
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,027,269	
Usage Tax		3,565,038	
Tangible Personal Property Tax		2,697,898	
Licenses-			
Marriage		7,571	
Deed Transfer Tax		140,565	
Delinquent Tax		223,366	7,661,707
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	29,635	
Real Estate Mortgages		132,896	
Chattel Mortgages and Financing Statements		119,448	
Powers of Attorney		3,716	
All Other Recordings		66,152	
Charges for Other Services-			
Copywork		12,153	364,000
Other:			
Tax Bills	\$	6,202	
Elections		12,960	
Miscellaneous		1,797	20,959
Interest Earned			2,939
Total Revenues		\$	8,058,778

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
 PHYLLIS S. MATTINGLY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 794,688

Usage Tax 3,457,909

Tangible Personal Property Tax 996,228

Licenses, Taxes, and Fees-

Delinquent Tax 33,602

Legal Process Tax 40,996 \$ 5,323,423

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 316,579

Delinquent Tax 34,108

Deed Transfer Tax 133,537 484,224

Payments to Other Districts:

Tangible Personal Property Tax \$ 1,278,504

Delinquent Tax 97,249 1,375,753

Payments to Sheriff 1,600

Payments to County Attorney 36,173

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 282,395

Employee Benefits-

Employer's Paid Health Insurance 25,560

Contracted Services-

Rental Maintenance Agreement 29,037

Advertising 368

Printing and Binding 6,200

Microfilming 11,028

Materials and Supplies-

Office Supplies 21,438

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
 PHYLLIS S. MATTINGLY, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-		
Conventions and Travel	3,389	
Dues and Miscellaneous	9,523	
Postage	10,633	
Repairs	2,109	
Errors and Omissions Policy	183	
Insufficient Funds	263	
Capital Outlay-		
Office Equipment	<u>7,922</u>	<u>\$ 410,048</u>
Total Expenditures		<u>\$ 7,631,221</u>
Net Revenues		\$ 427,557
Less: Statutory Maximum		<u>72,861</u>
Excess Fees		\$ 354,696
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for 2003		\$ 351,096
Payment to Fiscal Court - February 3, 2004		<u>351,096</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the County Clerk's agent in the County Clerk's name.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives for \$4,964 during 2002. Interest of \$68 and \$2 was received during 2002 and 2003 respectively. Funds totaling \$5,034 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2003.

Note 5. Leases

The office of the County Clerk was committed to a lease agreement with Pitney Bowes for a meter system. The agreement requires a quarterly payment of \$300 for 36 months to be completed on March 30, 2005. The total balance of the agreement was \$1,500 as of December 31, 2003.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 5. Leases (Continued)

The office of the County Clerk was committed to a lease agreement with Better Quality Digital Imaging Solutions for a copier. The agreement requires a monthly payment of \$297 for 63 months to be completed on May 30, 2008. In July 2003, the monthly payments increased to \$303. The total balance of the agreement was \$15,463 as of December 31, 2003.

The office of the County Clerk was committed to a lease agreement with Toshiba Business Solutions for a digital copier. The agreement requires a monthly payment of \$125 for 36 months to be completed on March 30, 2006. The total balance of the agreement was \$3,375 as of December 31, 2003.

The office of the County Clerk was committed to a lease agreement with Software Management, Inc. for a main computer and six (6) terminals. During the year, an additional terminal was added. The agreement requires a monthly payment of \$928 for 60 months to be completed on April 30, 2005. The total balance of the agreement was \$14,848 as of December 31, 2003.

The office of the County Clerk was committed to a lease agreement with Software Management, Inc. for software (CCLIX Full Service – 6 terminal access and delinquent tax). During the year, an additional terminal was added and acquired access. The agreement requires a monthly payment of \$550 for 60 months to be completed on April 30, 2005 and a \$25 annual service fee in April. The total balance of the agreement was \$8,850 as of December 31, 2003.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Phyllis S. Mattingly, Nelson County Clerk
Members of the Nelson County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Nelson County Clerk for the year ended December 31, 2003, and have issued our report thereon dated June 23, 2004. This was a special report on the County Clerk's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nelson County Clerk's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 23, 2004

